

CITY OF PAULLINA, IOWA
Paullina, Iowa

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION AND
SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended
June 30, 2009

**CITY OF PAULLINA, IOWA
TABLE OF CONTENTS**

	Page
Officials.....	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis.....	4-7
Basic Financial Statements:	Exhibit
Government-wide Financial Statement:	
Statement of Activities and Net Assets – Cash Basis.....	A 8-9
Governmental Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and	
Changes in Cash Balances.....	B 10-11
Proprietary Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and	
Changes in Cash Balances.....	C 12-13
Notes to Financial Statements	14-20
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and	
Changes in Balances – Budget and Actual (Cash Basis) – All	
Governmental Funds and Proprietary Funds.....	21
Notes to Required Supplementary Information – Budgetary Reporting ...	22
Other Supplementary Information	Schedule
Combining Statement of Cash Receipts, Disbursements and Changes in	
Cash Balances – Nonmajor Governmental Funds	1 23
Schedule of Receipts by Source and Disbursements by Function -	
All Governmental Funds.....	2 24
Independent Auditors' Report on Internal Control	
Over Financial Reporting and on Compliance and Other Matters	
Based on an Audit of Financial Statements Performed in Accordance	
With Government Auditing Standards.....	25-26
Schedule of Findings.....	27-28

CITY OF PAULLINA, IOWA

OFFICIALS

(Before January, 2009)

Name	Title	Term Expires
Marlo Ebel	Mayor	January, 2010
Marty Weber	Mayor Pro-Tem	January, 2010
Justin Stamer	Council Member	January, 2012
John Ihle	Council Member	January, 2012
Mike Otto	Council Member	January, 2012
John Muller	Council Member	January, 2010
Sandy Fritz	City Clerk/Administrator	January, 2009
Johnene Altman	Treasurer	January, 2009
Tisha Halverson	Attorney	January, 2009

(After January, 2009)

Name	Title	Term Expires
Marlo Ebel	Mayor	January, 2010
Martin Weber	Mayor Pro-Tem	January, 2010
Justin Stamer	Council Member	January, 2012
John Ihle	Council Member	January, 2012
Mike Otto	Council Member	January, 2012
John Muller	Council Member	January, 2010
Sandy Fritz	City Clerk/Administrator	January, 2010
Johnene Altman	Treasurer	January, 2010
Tisha Halverson	Attorney	January, 2010



21 1st Avenue NW
P.O. Box 1010
Le Mars, IA 51031
Phone (712) 546-7801
Fax (712) 546-6543

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Paullina
Paullina, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Paullina, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Paullina, as of June 30, 2009 and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2009 on our consideration of the City of Paullina's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 4 through 7 and 21 through 22 are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Paullina's basic financial statements. The combining nonmajor fund financial statements and the schedule of receipts by source and disbursements by function are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Other supplemental information including this information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion are fairly stated in all material respects in relation to the basic financial statements taken as a whole. We previously audited, in accordance with the standards referred to above, the financial statements for the years ended June 30, 2007 and 2008, (which are not presented herein) and expressed unqualified opinions on those financial statements which were presented in conformity with another comprehensive basis of accounting. The financial statements for the year ended June 30, 2006 (which are not presented herein) were audited by other auditors who expressed an unqualified opinion on those financial statements which were presented in conformity with another comprehensive basis of accounting.

Williams & Company, P.C.
Certified Public Accountants

November 11, 2009
Le Mars, Iowa

CITY OF PAULLINA, IOWA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009

The City of Paullina provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2009. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2009 FINANCIAL HIGHLIGHTS

- Receipts of the Government-wide activities decreased \$38,855 from fiscal year 2008 to fiscal 2009.
- Disbursements increased \$121,574 in fiscal 2009 from fiscal 2008.
- The City's total cash basis net assets increased \$185,462 from June 30, 2008 to June 30, 2009.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The City's Basic Financial Statements consist of a Government Wide Statement of Activities and Net Assets – Cash Basis, and Statements of Cash Receipts and Disbursements, Governmental Funds and Proprietary Funds. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the City's funds.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items, and is another comprehensive basis of accounting. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets – Cash Basis reports information which helps answer this question.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The city maintains four Enterprise Funds to provide separate information for the Water Fund, Electric Fund, Sewer Fund and Telecom Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, to \$959,465 from \$1,020,172. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year Ended June 30,	
	2009	2008
Receipts and Transfers:		
Program Receipts:		
Charges for Service.....	\$ 166,082	\$ 229,002
Operating Grants & Contributions	116,983	107,496
General Receipts		
Property Tax.....	226,651	264,050
Tax Increment Financing Collections	20,811	19,510
Local Option Sales Tax	127,387	106,021
Interest	10,697	31,978
Other General Receipts.....	92,640	26,799
Sale of Capital Assets	835	15,250
Net Transfers.....	24,716	974
Total Receipts and Transfers	786,802	801,080
Disbursements:		
Public Safety	288,822	180,252
Public Works	256,664	220,047
Health and Social Services.....	4,150	4,000
Culture and Recreation.....	84,288	96,023
Community and Economic Development.....	1,993	1,272
General Government.....	63,631	68,786
Debt Service.....	140,150	144,890
Capital Projects	7,811	10,665
Total Disbursements	847,509	725,935
Increase (Decrease) in Cash Basis Net Assets	(60,707)	75,145
Cash Basis Net Assets – Beginning of Year	1,020,172	945,027
Cash Basis Net Assets – End of Year	\$ 959,465	\$ 1,020,172

Changes in Cash Basis Net Assets of Business Type Activities

	Year Ended June 30,	
	2009	2008
Receipts:		
Operating Receipts:		
Water.....	\$ 165,654	\$ 173,967
Electric.....	1,019,863	941,641
Sewer.....	158,655	167,998
Telecom.....	129,104	101,400
Interest.....	27,311	46,718
Sale of Capital Assets.....	--	15,937
Proceeds from Debt.....	97,009	376,144
Intergovernmental Revenue.....	66,264	216,999
Total	<u>1,663,860</u>	<u>2,040,804</u>
Disbursements:		
Operating Disbursements:		
Water.....	186,483	143,764
Electric.....	762,902	752,394
Sewer.....	357,195	770,107
Telecom.....	86,395	88,317
Net Transfers Out.....	24,716	974
Total	<u>1,417,691</u>	<u>1,755,556</u>
Net Change in Cash Balance	246,169	285,248
Cash Basis Net Assets – Beginning of Year	1,303,487	1,018,239
Cash Basis Net Assets – End of Year	<u>\$ 1,549,656</u>	<u>\$ 1,303,487</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Paullina completed the year, its governmental funds reported a combined fund balance of \$959,465 a decrease of \$60,707 over last year's total of \$1,020,172. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund decreased by \$13,288 due to the purchase of an ambulance and the airport re-surfacing project.
- The Road Use Tax Fund cash balance decreased by \$39,445 during the fiscal year due to the purchase of capital equipment.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

As the City of Paullina completed the year, its business type funds reported a combined fund balance of \$1,549,656 an increase of \$246,169 over last year's total of \$1,303,487. The following are the major reasons for the changes in fund balances of the business type funds from the prior year.

- The Water Fund cash balance decreased by \$22,130 to \$349,090 due to the purchase of a backhoe.
- The Electric Fund cash balance increased by \$318,175 to \$775,430 due to an increase in electric rates and a transfer from the Telecom Fund.
- The Sewer Fund cash balance increased by \$2,231 to \$63,299 due to an increase in sewer rates.
- The Telecom Fund cash balance decreased by \$52,107 to \$361,837 due to a transfer of \$100,000 to the Electric Fund.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. This amendment was approved on May 18, 2009 and resulted in an increase in budgeted receipts of \$450,302 and an increase in budgeted disbursements of \$578,769. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

A comparison of the City's debt at June 30, 2009 to June 30, 2008 follows:

	Year Ended June 30,	
	2009	2008
G.O. Bonds and Notes.....	\$ 525,000	\$ 625,000
Special Assessment Notes	30,000	40,000
Sewer Loan Notes	498,000	421,991
Electric Revenue Notes	665,000	745,000
Telecommunication		
Revenue Notes	685,000	740,000
Total	<u>\$ 2,403,000</u>	<u>\$ 2,571,991</u>

ECONOMIC FACTORS

The City repaired the runway at the airport and continues to repair various streets.

The City's electric rates continue to increase to cover the supplier increases and build cash reserves.

The City will no longer contract its police protection from O'Brien County. The City will have its own police department.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact Sandy Fritz, City Clerk, Paullina, Iowa.

CITY OF PAULLINA, IOWA
STATEMENT OF ACTIVITIES and NET ASSETS - Cash Basis
For the Year Ended June 30, 2009

Functions/Programs	Disbursements	Program Receipts		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
Public Safety	\$ 288,822	\$ 29,855	\$ -	\$ -
Public Works	256,664	133,927	93,258	-
Health and Social Services	4,150	-	-	-
Culture and Recreation	84,288	-	-	-
Community and Economic Development	1,993	-	-	-
General Government	63,631	2,300	23,725	-
Capital Outlay	7,811	-	-	-
Debt Service	140,150	-	-	-
Total governmental activities	847,509	166,082	116,983	-
Business-Type Activities:				
Water Utility	186,483	165,654	-	-
Sewer Utility	357,195	158,655	-	66,264
Electric Utility	762,902	1,019,863	-	-
Telecom	86,395	129,104	-	-
Total Business-Type Activities:	1,392,975	1,473,276	-	66,264
Total Primary Government	\$ 2,240,484	\$ 1,639,358	\$ 116,983	\$ 66,264

General Receipts:

Property taxes
Tax Increment Financing
Local Option Sales Tax
Interest
Sale of Assets
Miscellaneous
Proceeds from Financing
Interfund Transfers
Total general revenues and transfers
Change in net assets
Net assets - beginning
Net assets - ending

Cash Basis Net Assets

Restricted:
Debt Service
Unrestricted
Total Cash Basis Net Assets

Exhibit A

Net (Disbursements) Receipts and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (258,967)		\$ (258,967)
(29,479)		(29,479)
(4,150)		(4,150)
(84,288)		(84,288)
(1,993)		(1,993)
(37,606)		(37,606)
(7,811)		(7,811)
(140,150)		(140,150)
<u>(564,444)</u>		<u>(564,444)</u>
	\$ (20,829)	(20,829)
	(132,276)	(132,276)
	256,961	256,961
	42,709	42,709
	<u>146,565</u>	<u>146,565</u>
<u>(564,444)</u>	<u>146,565</u>	<u>(417,879)</u>
226,651	-	226,651
20,811	-	20,811
127,387	-	127,387
10,697	27,311	38,008
835	-	835
92,640	-	92,640
-	97,009	97,009
24,716	(24,716)	-
<u>503,737</u>	<u>99,604</u>	<u>603,341</u>
(60,707)	246,169	185,462
1,020,172	1,303,487	2,323,659
<u>\$ 959,465</u>	<u>\$ 1,549,656</u>	<u>\$ 2,509,121</u>
\$ 378,604	\$ 220,974	\$ 599,578
580,861	1,328,682	1,909,543
<u>\$ 959,465</u>	<u>\$ 1,549,656</u>	<u>\$ 2,509,121</u>

CITY OF PAULLINA, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
Governmental Funds
For the Year Ended June 30, 2009

	General	Special Revenue		
		Road Use Tax	Urban Renewal Tax Increment	Business Park
Receipts:				
Taxes	\$ 174,616	\$ -	\$ -	\$ -
Special Assessments	-	-	-	-
Licenses and Permits	2,300	-	-	-
Intergovernmental	13,125	93,258	-	-
Charges for Services	106,737	-	-	-
Contributions	10,600	-	-	-
TIF Revenue	-	-	20,811	-
Local Option Sales Tax	-	-	-	-
Rental of City Property	33,068	-	-	-
Interest on Investments	4,868	-	182	1,683
Miscellaneous	92,640	-	-	-
Total Receipts	437,954	93,258	20,993	1,683
Disbursements:				
Public Safety	248,356	-	-	-
Public Works	123,808	132,703	-	-
Health and Social Services	4,150	-	-	-
Culture and Recreation	80,396	-	-	-
Community and Economic Development	1,993	-	-	-
General Government	62,491	-	-	-
Capital Outlay	-	-	-	889
Debt Service:				
Principal Retirement	-	-	-	-
Interest	-	-	-	-
Total Disbursements	521,194	132,703	-	889
Excess (Deficiency) of Receipts to Disbursements	(83,240)	(39,445)	20,993	794
Other financing sources (uses):				
Sale of Assets	835	-	-	-
Transfers In	78,836	-	-	-
Transfers Out	(9,719)	-	(19,150)	-
Total other financing sources	69,952	-	(19,150)	-
Net Change in Fund Balances	(13,288)	(39,445)	1,843	794
Fund Balances Beginning of Year	210,708	196,158	14,463	193,061
Fund Balances End of Year	\$ 197,420	\$ 156,713	\$ 16,306	\$ 193,855

Exhibit B

Debt Service	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 943	\$ 51,092	\$ 226,651
23,977	-	23,977
-	-	2,300
-	-	106,383
-	-	106,737
-	-	10,600
-	-	20,811
-	127,387	127,387
-	-	33,068
3,791	173	10,697
-	-	92,640
28,711	178,652	761,251
-	40,466	288,822
-	153	256,664
-	-	4,150
-	3,892	84,288
-	-	1,993
-	1,140	63,631
-	6,922	7,811
110,000	-	110,000
30,150	-	30,150
140,150	52,573	847,509
(111,439)	126,079	(86,258)
-	-	835
133,799	-	212,635
(27,000)	(132,050)	(187,919)
106,799	(132,050)	25,551
(4,640)	(5,971)	(60,707)
383,244	22,538	1,020,172
\$ 378,604	\$ 16,567	\$ 959,465

CITY OF PAULLINA, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
Proprietary Funds
For the Year Ended June 30, 2009

	Water Utility
Operating Receipts:	
Charges for Services	\$ 165,654
Total Operating Receipts	<u>165,654</u>
Operating Disbursements:	
Purchased Power	
Employee Services	84,803
Distribution / Collection	12,437
Supplies	20,004
Repairs	5,609
Capital Outlay	41,384
Administrative and General	22,246
Total Operating Disbursements	<u>186,483</u>
Excess (Deficiency) of Receipts Over Disbursements	(20,829)
Non-Operating Receipts (Disbursements):	
Interest Income	6,899
Proceeds from Financing	
Intergovernmental Revenue	
Interest Expense	
Principal Payments	
Total Non-Operating Receipts (Disbursements)	<u>6,899</u>
Excess (Deficiency) of Receipts Over Disbursements	(13,930)
Transfers In	-
Transfers Out	<u>(8,200)</u>
Change in Net Assets	(22,130)
Net Assets Beginning of Year	<u>371,220</u>
Net Assets End of Year	<u>\$ 349,090</u>
Cash Basis Net Assets	
Reserved for Debt Service	\$ -
Unreserved	349,090
Total Cash Basis Net Assets	<u>\$ 349,090</u>

Exhibit C

Business Type Activities			
Electric Utility	Sewer Utility	Telecom	Total
\$ 1,019,863	\$ 158,655	\$ 129,104	\$ 1,473,276
1,019,863	158,655	129,104	1,473,276
376,130			376,130
179,891	91,926		356,620
7,404	20,205		40,046
25,980	10,076		56,060
1,954	2,565		10,128
-	157,501		198,885
51,028	38,932		112,206
642,387	321,205	-	1,150,075
377,476	(162,550)	129,104	323,201
14,548	680	5,184	27,311
	97,009		97,009
	66,264		66,264
(40,515)	(14,990)	(31,395)	(86,900)
(80,000)	(21,000)	(55,000)	(156,000)
(105,967)	127,963	(81,211)	(52,316)
271,509	(34,587)	47,893	270,885
109,719	37,818	-	147,537
(63,053)	(1,000)	(100,000)	(172,253)
318,175	2,231	(52,107)	246,169
457,255	61,068	413,944	1,303,487
\$ 775,430	\$ 63,299	\$ 361,837	\$ 1,549,656
\$ 150,414	\$ -	\$ 70,560	\$ 220,974
625,016	63,299	291,277	1,328,682
\$ 775,430	\$ 63,299	\$ 361,837	\$ 1,549,656

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Paullina is a political subdivision of the State of Iowa located in O'Brien County. It was first incorporated in 1883 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements and general administrative services. The City also provides water, sewer, electrical, and cable tv, telephone and internet utilities for its citizens.

A. Reporting Entity

For Financial reporting purposes, the City of Paullina has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of Paullina has no component units.

Jointly Governed Organizations

The City also participates in several jointly governed organizations for which the City is not financially accountable or that the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City officials are members of the following boards and commissions: County Emergency Management Commission, County Landfill Board, and County Economic Development Board.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. The effect of interfund activity has been removed from these statements. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Business Park Fund is utilized to account for the development of the City's new business park area.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Electric Fund accounts for the operation and maintenance of the City's electric system.

The Telecom Fund accounts for the operations of the telecom system.

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting

The City of Paullina maintains its financial records on the basis of cash receipts and disbursements which is an other comprehensive basis of accounting and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and other accrued items as well as fixed assets. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

Note 2 – CASH AND POOLED INVESTMENTS

The City's deposits at June 30, 2009 were entirely covered by Federal depository insurance, or by the state sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments at June 30 2009; however the City's time deposits were as follows:

Certificates of Deposit	<u>\$629,000</u>
-------------------------	------------------

Interest Rate Risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 3 – BONDS AND NOTES PAYABLE

The City's computed legal debt limit as of June 30, 2009, is \$1,601,640 of which \$555,000 is committed for outstanding general obligation debt.

The following is a summary of bond transactions of the City for the year ended June 30, 2009:

	Governmental Activities	Business-Type Activities
	Bonds and Notes Payable by Debt Service Fund	Bonds and Notes Paid by Enterprise Funds
Primary Government		
Bonds and notes payable July 1, 2008	\$ 665,000	\$ 1,906,991
Plus: bonds and notes issued	----	97,009
Less: payments	(110,000)	(156,000)
Bonds and notes payable June 30, 2009	<u>\$ 555,000</u>	<u>\$ 1,848,000</u>
Due within one year	<u>\$ 110,000</u>	<u>\$ 156,000</u>

The City of Paullina had the following outstanding bonds as of June 30, 2009:

Bond	Date of Issue	Interest Rate	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2009
General Obligation	05/03/99	4.10 – 4.75%	2010	\$20,000 - \$40,000	\$ 340,000	\$ 40,000
General Obligation	06/01/02	3.60 – 5.20%	2013	\$10,000 - \$15,000	135,000	60,000
Business Park	09/14/06	3.80 – 4.25%	2017	\$45,000 - \$60,000	515,000	425,000
S.A. Capital Loan	06/20/02	3.75% - 5.60%	2011	\$ 3,000 - \$10,000	93,000	30,000
Telecom	04/22/04	1.80% - 4.80%	2019	\$50,000 - \$85,000	950,000	685,000
Electric	02/01/01	4.70% - 5.60%	2016	\$55,000 - \$110,000	1,200,000	665,000
Sewer Relining	12/01/07	3.00%	2027	\$21,000 - \$35,000	520,000	498,000
Total Bonds Due					<u>\$ 3,753,000</u>	<u>\$ 2,403,000</u>

Annual debt service requirements to maturity of General Obligation Bonds and Notes, revolving loan fund loans, special assessment notes and Revenue Capital Loan Notes are as follows:

Year Ending June 30	General Obligation Bonds and Notes		Special Assessment Capital Loan		Business Park Capital Loan Note		Total Governmental	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 55,000	\$ 4,930	\$ 10,000	\$ 1,635	\$ 45,000	\$ 17,180	\$110,000	\$ 23,745
2011	15,000	2,295	10,000	1,105	50,000	15,448	75,000	18,848
2012	15,000	1,545	10,000	560	50,000	13,498	75,000	15,603
2013	15,000	780	-	-	50,000	11,523	65,000	12,303
2014	-	-	-	-	55,000	9,523	55,000	9,523
2015 – 2019	-	-	-	-	175,000	14,885	175,000	14,885
Total	<u>\$ 100,000</u>	<u>\$ 9,550</u>	<u>\$ 30,000</u>	<u>\$ 3,300</u>	<u>\$425,000</u>	<u>\$ 82,057</u>	<u>\$555,000</u>	<u>\$ 94,907</u>

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 3 – BONDS AND NOTES PAYABLE (CONTINUED)

Year Ending June 30	Telecommunications Revenue Capital Loan Notes Issued 4-1-04		Electric Revenue Revenue Capital Loan Issued 2-1-01		Sewer Relining Project Revenue Capital Loan Issued 8-30-07		Total Business Type	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 55,000	\$ 29,325	\$ 80,000	\$ 35,995	\$ 21,000	\$ 14,940	\$ 156,000	\$ 80,260
2011	60,000	27,338	85,000	31,835	22,000	14,310	167,000	73,483
2012	60,000	25,117	90,000	27,330	23,000	13,650	173,000	66,097
2013	65,000	22,778	95,000	22,515	23,000	12,960	183,000	58,253
2014	65,000	20,145	100,000	17,385	24,000	12,270	189,000	49,800
2015 – 2019	380,000	55,030	215,000	18,095	131,000	50,130	726,000	123,255
2020 – 2024	-	-	-	-	152,000	29,190	152,000	29,190
2025 – 2029	-	-	-	-	102,000	6,180	102,000	6,180
Total	\$ 685,000	\$ 179,733	\$ 745,000	\$193,270	\$498,000	\$ 153,680	\$1,848,000	\$486,518

In September 2006, the City issued \$515,000 of bond anticipation notes to finance the development of the Business Park. The notes mature June 1, 2017 and accrues interest at up to 4.25%. Payments for these bonds will come from the Debt Service Fund and the Business Park Fund.

The City of Paullina in early 2006 began the process of rehabilitating their sewer system. The project will consist of the re-lining of approximately 28,000 feet of existing sewer line. The City began receiving Iowa Finance Authority funds in April of 2006 to fund the initial costs of the study and engineering costs. To satisfy the Iowa Finance Authority debt the City issued \$520,000 of SRF bonds in August of 2007. Additionally, the City has been awarded a block grant of \$350,000 to pay the remaining costs of the project. The project was completed in November 2008. The city council has indicated that an increase in sewer rates will be initiated to repay the bond issue.

NOTE 4 – PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

The City's payroll for employees covered by the System for the year ended June 30, 2009 was \$257,932. The total City payroll for the fiscal year was \$298,113. All full-time City employees are eligible to participate in IPERS. Benefits vest after 4 years (or 16 quarters) of service or when the employee attains the age of 55, whichever comes first. Employees are eligible to retire at or after age 55 and are entitled to an annual retirement benefit, payable monthly for life, in an amount calculated on an average of their highest 3 year average salary. IPERS also provides death and disability benefits.

Most regular plan members are required to contribute 4.10% of their annual covered salary and the City is required to contribute 6.35% of annual covered payroll. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2009, 2008, and 2007 were \$17,533, \$16,250, and \$13,695, respectively, equal to the required contributions for each year.

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 5 – COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2009 is as follows:

Type of Benefit	Amount
Vacation	<u>\$5,093</u>

This liability has been computed based on rates of pay as of June 30, 2009.

As sick leave is not payable upon termination, retirement or death, the minimum accumulated sick leave is not presented as part of these financial statements.

NOTE 6 – RISK MANAGEMENT

The City of Paullina is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 7 – TELECOMMUNICATIONS PROJECT

On May 2, 1999 the City of Paullina entered into a Joint Public Improvement agreement with other communities in O'Brien County, under Chapter 28E of the Code of Iowa, to acquire property and construct facilities to provide telecommunication services to the cities. Each party is responsible for retiring its portion of the debt incurred. The Community Cable Television Agency of O'Brien County is controlled by a jointly appointed Board of Directors and is operated apart from the City's operations. The financial information for the Community Cable Television Agency is not included in the City's financial statements.

NOTE 8 – INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2009, is as follows:

Fund	Transfers In	Transfers Out
General	\$ 78,836	\$ 9,719
Debt Service	133,799	27,000
Urban Renewal – TIF		19,150
Emergency		4,663
Local Option Sales Tax		127,387
Water		8,200
Electric	109,719	63,053
Sewer	37,818	1,000
Cable TV		100,000
	<u>\$ 360,172</u>	<u>\$ 360,172</u>

**CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 8 – INTERFUND TRANSFERS (CONTINUED)

Transfers are used to:

1. Move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.
2. Move revenues restricted to debt service from the fund collecting the revenues to the debt service fund as debt service payments become due.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF PAULLINA, IOWA
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS,
DISBURSEMENTS AND CHANGES IN BALANCES BUDGET AND ACTUAL
(CASH BASIS)- ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
For the Year Ended June 30, 2009

	Budgeted Amount		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts:				
Taxes	\$ 221,455	\$ 221,455	\$ 226,651	\$ 5,196
Special Assessments	43,216	43,216	23,977	(19,239)
Licenses and Permits	2,680	2,680	2,300	(380)
Intergovernmental	108,728	264,992	172,647	(92,345)
Charges for Services	1,452,169	1,590,841	1,580,013	(10,828)
Contributions	-	-	10,600	10,600
TIF Revenue	19,000	19,000	20,811	1,811
Local Option Sales Tax	99,160	133,840	127,387	(6,453)
Rental of City Property	20,000	20,000	33,068	13,068
Interest	75,705	75,705	38,008	(37,697)
Miscellaneous	22,600	81,606	93,475	11,869
Total Receipts	2,064,713	2,453,335	2,328,937	(124,398)
Disbursements				
Public Safety	214,245	333,573	288,822	44,751
Public Works	287,264	479,172	256,664	222,508
Health and Social Services	4,000	4,150	4,150	-
Culture and Recreation	108,600	108,600	84,288	24,312
Community and Economic Development	2,000	3,000	1,993	1,007
General Government	78,686	89,675	63,631	26,044
Capital Projects	23,100	31,100	7,811	23,289
Debt Service				
Principal Retirement	110,000	110,000	110,000	-
Interest	29,950	30,150	30,150	-
Business Type / Enterprises	1,409,608	1,595,122	1,392,975	202,147
Total Disbursements	2,267,453	2,784,542	2,240,484	544,058
Excess (deficiency) of receipts over disbursements	(202,740)	(331,207)	88,453	419,660
Other financing sources (uses):				
Proceeds from Debt Financing	-	-	97,009	97,009
Transfers In	293,006	354,686	360,172	5,486
Transfers (Out)	(293,006)	(354,686)	(360,172)	(5,486)
Total other financing sources (uses)	-	-	97,009	97,009
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(202,740)	(331,207)	185,462	516,669
Balances Beginning of Year	2,323,659	2,323,659	2,323,659	-
Balances End of Year	\$ 2,120,919	\$ 1,992,452	\$ 2,509,121	\$ 516,669

CITY OF PAULLINA, IOWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY REPORTING
JUNE 30, 2009

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annual adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the adopted budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budget disbursements by \$578,769. The budget amendment is reflected in the final budgeted amounts.

OTHER SUPPLEMENTARY INFORMATION

CITY OF PAULLINA, IOWA
 COMBINING STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
 Governmental Nonmajor Funds
 For the Year Ended June 30, 2009

Schedule 1

	Special Revenue Funds			Capital Project Fund	Total Governmental Nonmajor Funds
	Emergency	Employee Benefits	Local Option Sales Tax	North Mickley Street	
Receipts:					
Taxes	\$ 4,742	\$ 46,350	\$ -	\$ -	\$ 51,092
Local Option Sales Tax	-	-	127,387	-	127,387
Interest on Investments	13	160	-	-	173
Total Receipts	4,755	46,510	127,387	-	178,652
Disbursements:					
Public Safety	-	40,466	-	-	40,466
Public Works	-	153	-	-	153
Culture and Recreation	-	3,892	-	-	3,892
General Government	-	1,140	-	-	1,140
Capital Outlay	-	-	-	6,922	6,922
Total Disbursements	-	45,651	-	6,922	52,573
Excess (Deficiency) of Receipts over Disbursements	4,755	859	127,387	(6,922)	126,079
Other financing sources (uses):					
Transfers Out	(4,663)	-	(127,387)	-	(132,050)
Total other financing sources	(4,663)	-	(127,387)	-	(132,050)
Net Change in Fund Balances	92	859	-	(6,922)	(5,971)
Fund Balances Beginning of Year	-	22,538	-	-	22,538
Fund Balances End of Year	\$ 92	\$ 23,397	-	\$ (6,922)	\$ 16,567

CITY OF PAULLINA, IOWA
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS
For the Four Years Ended
June 30, 2009

Schedule 2

	2009	2008	2007	2006
Receipts:				
Property tax	\$ 226,651	\$ 264,050	\$ 254,210	\$ 226,642
Tax increment financing revenue	20,811	19,510	19,176	21,039
Local Option Sales Tax	127,387	106,021	97,940	76,864
Licenses and permits	2,300	3,086	3,062	2,288
Use of money and property	43,765	60,113	68,337	51,806
Intergovernmental	106,383	107,496	104,893	102,560
Charges for service	106,737	172,818	120,943	118,724
Special Assessments	23,977	24,963	40,338	83,416
Miscellaneous	103,240	26,799	54,423	14,265
Sale of Capital Assets	835	15,250	-	500
Total	762,086	800,106	763,322	698,104
Disbursements:				
Operating:				
Public safety	288,822	180,252	194,672	190,849
Public works	256,664	220,047	378,086	144,941
Health and Social Services	4,150	4,000	3,850	3,750
Culture and recreation	84,288	96,023	73,177	87,839
Community and economic development	1,993	1,272	90	1,651
General government	63,631	68,786	65,456	68,662
Debt service	140,150	144,890	92,168	73,863
Capital projects	7,811	10,665	337,625	38,312
Total	\$ 847,509	\$ 725,935	\$ 1,145,124	\$ 609,867



21 1st Avenue NW
P.O. Box 1010
Le Mars, IA 51031
Phone (712) 546-7801
Fax (712) 546-6543

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND OTHER MATTERS
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON
AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of the City Council
City of Paullina
Paullina, Iowa

We have audited the financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of the City of Paullina, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City of Paullina's basic financial statements listed in the table of contents and have issued our report thereon dated November 11, 2009. The financial statements were prepared on the cash basis of accounting which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the City of Paullina's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contract and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion of compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Internal Control Over Financial Reporting:

In planning and performing our audit, we considered the City of Paullina's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Paullina's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Paullina's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Paullina's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the City of Paullina's financial statements that is more than inconsequential will not be prevented or detected by the City of Paullina's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items II-A-09 and II-B-09 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Paullina's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above are material weaknesses.

The City of Paullina's responses to findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the City of Paullina's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Paullina and other parties to whom the City of Paullina may report. This report is not intended to be used and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of the City of Paullina during the course of our audit. If you have any questions concerning any of the above matters, we would be pleased to discuss them with you at your convenience.

Williams & Company, P.C.
Certified Public Accountants

Le Mars, Iowa
November 11, 2009

CITY OF PAULLINA, IOWA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009

Part I – Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II – Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

II-A-09 Financial Accounting – Segregation of Duties

Observation – The City accountant is involved in almost all phases of the finance operations, including check preparation, preparation of journal entries, as well as financial reporting and statements.

Recommendation – With a limited number of personnel, segregation of duties is difficult. The City should implement management review procedures which we feel would aid in improving the internal control of the City.

Response – The City feels that additional personnel would not be cost effective. However, management will monitor transactions on a regular basis.

Conclusion – Response accepted.

II-B-09 Financial Reporting

Observation – During the audit, we identified two transfers made to the Library that were recorded in the general ledger as Materials and Supplies Expense.

Recommendation – With limited personnel, the City should implement procedures to ensure that all cash disbursements are properly identified and recorded in the financial statements.

Response – The City will double check disbursements in the future to ensure that they are properly recorded in the financial statements.

Conclusion – Response accepted.

CITY OF PAULLINA, IOWA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009

Part III – Other Findings Related to Statutory Reporting

III-A-09 Certified Budget – Disbursements during the year ended June 30, 2009 did not exceed the amounts budgeted.

III-B-09 Questionable Disbursement – We noted no disbursements that did not meet the requirements of public purpose as defined in the Attorney General's Opinion dated April 25, 1979.

III-C-09 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-D-09 Business Transactions – There were no business transactions between the City and City officials or employees noted.

III-E-09 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

III-F-09 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

III-G-09 Revenue Notes – The City was in compliance with the requirements of its revenue notes.

III-H-09 Deposits and Investments – We noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policies.

III-I-09 Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

III-J-09 Debt Service Fund Balance – The City's Debt Service Fund has accumulated a fund balance of \$378,604, an amount in excess of the amount needed.

Recommendation – The City should consider using the amount in the Debt Service Fund to pay debt rather than continuing to levy taxes at current rates.

Response – The City will use what has been accumulated in the Debt Service Fund and not levy as much for future debt service payments.

Conclusion – Response accepted.